

Message Text

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ACTION EA-12

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-05 H-01 INR-10
L-03 NSAE-00 NSC-05 PA-01 SP-02 SS-15 USIA-06
AID-05 COME-00 EB-08 FRB-03 TRSE-00 XMB-02
OPIC-03 LAB-04 SIL-01 OMB-01 DOE-15 SOE-02 OES-07
/112 W

-----034360 301311Z /53

R 300330Z MAR 78
FM AMCONSUL SAPPORO
TO AMEMBASSY TOKYO
INFO SECSTATE WASHDC 519
AMCONSUL FUKUOKA
AMCONSUL NAHA
AMCONSUL OSAKA KOBE

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E.O. 11652: N/A
TAGS: ECON, JA
SUBJECT: NORTHERN JAPAN IN FATALISTIC MOOD

1. PERHAPS INURED TO A SEEMINGLY NEVER ENDING STREAM OF BAD NEWS ON THE ECONOMIC FRONT, THE PEOPLE OF NORTHERN JAPAN ARE IN A FATALISTIC MOOD. DOUBTFUL THAT THE GOVERNMENT'S PUBLIC WORKS EXPENDITURES WILL REKINDLE DOMESTIC DEMAND, FRUSTRATED AND ANGERED BY BEING SHUT OUT OF TRADITIONAL FISHING AREAS, SADDLED WITH DEMAND/SUPPLY IMBALANCES, AND RESENTFUL OF FOREIGN CRITICISM OF JAPAN'S TRADE SURPLUS, THEY SEE NO CLEAR WAY OUT OF THE TANGLE OF ECONOMIC DIFFICULTIES PLAGUING BOTH THE REGION AND THE COUNTRY.

2. TWO RECENT POLLS OF BUSINESSES IN HOKKAIDO AND THE TOHOKU DEMONSTRATED THE DEPTH OF THE PESSIMISM. OF THE SEVERAL HUNDRED FIRMS QUERIED, NEARLY 90 PERCENT RESPONDED THAT THEY EXPECTED BUSINESS CONDITIONS DURING

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THE FIRST HALF OF THIS YEAR EITHER TO REMAIN THE SAME OR TO WORSEN. GROWTH IN DEPARTMENT STORE SALES LAST YEAR WAS THE LOWEST IN 22 YEARS. INVESTMENT IN NEW PLANTS IN THE TOHOKU LAST YEAR REACHED A TEN-YEAR LOW. EVEN THE CEMENT INDUSTRY WHICH HAS BEEN OPERATING AT CAPACITY TO MEET THE DEMAND GENERATED BY THE PUBLIC WORKS PROJECTS DOES NOT EXPECT TO MAINTAIN PRODUCTION LEVELS UNLESS

THERE IS A RESURGENCE OF PRIVATE DEMAND. IN AN IRONIC CONFUSION OF POLICY GOALS, HOKKAIDO COAL MINING COMPANIES HAVE INCREASED PRODUCTION IN RESPONSE TO GOJ ENERGY POLICY GUIDANCE, ONLY TO BE LEFT WITH SURPLUS INVENTORIES AS A RESULT OF LACK OF DEMAND FROM THE STEEL AND POWER INDUSTRIES.

3. ALTHOUGH LESS DEPENDENT ON EXPORTS THAN ARE OTHER REGIONS IN JAPAN, AND CUSHIONED IN HOKKAIDO BY TRADITIONALLY LARGE GOJ EXPENDITURES, BUSINESSMEN IN NORTHERN JAPAN SHARE THE NATIONAL CONCERNS TOWARDS THE EFFECTS OF THE SHARP YEN APPRECIATION. OFFICIAL SOURCES ESTIMATE THAT THE HIGH YEN RATE HAS ADVERSELY AFFECTED 60 PERCENT OF LOCAL MANUFACTURING INDUSTRIES WHEREAS ONLY 10 PERCENT HAVE BENEFITED. THE REGION'S TRADE DEFICIT LAST YEAR WAS THE SECOND LARGEST SINCE THE WAR DUE TO DECLINE IN EXPORTS OF STEEL, SHIPS AND PROCESSED FISH. BANK-RUPTCIES DURING JANUARY/FEBRUARY WERE RELATIVELY FEW BUT IT IS FEARED A LARGER THAN NORMAL SURGE WILL BEGIN IN MARCH. UNEMPLOYMENT IN NORTHERN JAPAN, ESPECIALLY IN THE TOHOKU IS ABOVE THE NATIONAL AVERAGE AND A RASH OF BUSINESS FAILURES COULD, ACCORDING TO ONE ESTIMATE, LIFT UNEMPLOYMENT LEVELS TO THE 4-6 PERCENT RANGE.

4. REFLECTING THEIR RELATIVELY SOPHISTICATED UNDER-LIMITED OFFICIAL USE

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STANDING OF INTERNATIONAL COMMERCE, OUR LOCAL CONTACTS HAVE BEEN RELUCTANT TO ASCRIBE THE YEN'S APPRECIATION TO SIMPLE CAUSES. THEY RECOGNIZE THAT SO LONG AS JAPAN RUNS AT OUTSIZED CURRENT ACCOUNT SUPPLUS THE YEN WILL COME UNDER UPWARD PRESSURE. FURTHERMORE, THEY READILY NOTE THAT MUCH OF THE ACTIVITY ON THE TOKYO FOREIGN EXCHANGE MARKET IS GENERATED BY LARGE JAPANESE TRADING FIRMS. BUT THERE IS AN EXASPERATED UNDERTONE CRITICAL OF US DOLLAR DEFENSE EFFORTS. THE FEELING IS STRONG THAT JAPAN HAS TAKEN MAJOR STEPS TO DEAL WITH ITS CURRENT ACCOUNT SURPLUS AND THAT THE US SHOULD RECIPROCATATE BY REDUCING ITS TRADE DEFICIT AND ADOPTING AN EFFECTIVE ENERGY POLICY.

5. DESPITE CONTINUING TRADE FRICTIONS, GOODWILL TOWARDS THE US REMAINS HIGH. IN MEETINGS WITH CIVIC GROUPS, ACADEMICIANS, POLITICIANS AND THE MEDIA, WE HAVE ENCOUNTERED NO CHANGE IN THE BASIC FRIENDLINESS. FOR ONE THING, THE US BENEFITS IN NORTHERN JAPAN FROM SOVIET CLUMSINESS IN HANDLING ITS RELATIONS WITH JAPAN. THE NORTHERN TERRITORIES ISSUE IS VERY MUCH ON THE SURGACE OF PEOPLE'S CONSCIOUSNESS HERE, AND THE

FISHERIES NEGOTIATIONS AFFECT THE LIVELIHOODS OF A
LARGE PORTION OF THE POPULATION. THE GROWING SOVIET
NAVAL PRESENCE HAS BEEN NOTED WITH ALARM IN THE PRESS
AND EVEN BY OPPOSITION PARTY MEMBERS. BY COMPARISON,
FRICTIONS WITH THE US SEEM LESS DANGEROUS. AT LEAST
THE CHANNELS OF COMMUNICATION ARE OPEN AND WORKING.
BUT MORE FUNDAMENTALLY WE HAVE THE IMPRESSION THAT
THERE IS A SENSE THAT THESE ECONOMICALLY TROUBLED
TIMES HAVE MADE THE RELATIONSHIP WITH THE US EVEN
MORE IMPORTANT.
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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 jan 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ECONOMIC GROWTH, PUBLIC ATTITUDES
Control Number: n/a
Copy: SINGLE
Draft Date: 30 mar 1978
Decaption Date: 01 jan 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 20 Mar 2014
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1978SAPPOR00034
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Expiration:
Film Number: D780138-0178
Format: TEL
From: SAPPORO
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1978/newtext/t1978038/aaaaagkb.tel
Line Count: 126
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: 36d418c9-c288-dd11-92da-001cc4696bcc
Office: ACTION EA
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: n/a
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 05 may 2005
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: N/A
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 3364492
Secure: OPEN
Status: NATIVE
Subject: NORTHERN JAPAN IN FATALISTIC MOOD
TAGS: ECON, JA
To: TOKYO
Type: TE
vdkgvwkey: odb://SAS/SAS.dbo.SAS_Docs/36d418c9-c288-dd11-92da-001cc4696bcc
Review Markings:
Sheryl P. Walter
Declassified/Released
US Department of State
EO Systematic Review
20 Mar 2014
Markings: Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014